

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF HAMTRAMCK, MICHIGAN	County WAYNE
Fiscal Year End JUNE 30, 2006	Opinion Date OCTOBER 31, 2006	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

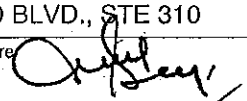
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	TO BE FORWARDED	
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ALAN C YOUNG & ASSOCIATES, P.C.			Telephone Number (313) 873 7500	
Street Address 2990 W. GRAND BLVD., STE 310			City DETROIT	State MI
Zip 48202				
Authorizing CPA Signature 		Printed Name ANIL SAKHUJA		License Number 1101021118

City of Hamtramck, Michigan

**Financial Report
with Additional Information
June 30, 2006**

City of Hamtramck, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Hamtramck, Michigan

We have audited the accompanying general purpose financial statements of the City of Hamtramck, Michigan as of June 30, 2006 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Hamtramck, Michigan's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 4, the capital assets recorded in the Water and Sewer Enterprise Fund do not include any assets acquired before June 30, 1986. Had such assets been recorded, the capital assets and fund equity would have been increased from the amounts reported in these general purpose financial statements, and depreciation expense would have been increased. In addition, as discussed in Note 9, the City has a net pension obligation resulting from pension contributions in the 1980s and 1990s that were less than the actuarially required amounts. This liability has not been valued and recorded in the General Long-term Debt Account Group. The liability for both the fixed assets and net pension obligation has not been determined.

To the Honorable Mayor and City Council
City of Hamtramck, Michigan

The accompanying general purpose financial statements do not present government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. In addition, the combining component unit information presents only modified accrual information. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation. The City has reported its statement of cash flows on the indirect method, rather than directly reporting cash inflows and outflows from operating activities. Finally, the long-term debt footnote disclosure does not present the amount due within the next fiscal year; the future debt service requirement does not distinguish between principal and interest, nor does it present principal and interest in five-year increments. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements and full accrual information for the combining component unit statements. Further, accounting principles require separate fund-based reporting of its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. In addition, accounting principles require the general fixed asset data to include general infrastructure assets, and the accumulation of depreciation of government-wide financial statements for the City's governmental activities, business-type activities, and discretely presented component units (including the full accrual combining component unit data); the amounts of general infrastructure assets and general fixed assets accumulated depreciation are not reasonably determinable. Accounting principles require the cash flow statement to directly report cash inflows and outflows from operating activities.

In our opinion, the general purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Hamtramck, Michigan as of June 30, 2006 or the changes in its financial position of its cash flows, where applicable for the year then ended.

The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the City of Hamtramck, Michigan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The accompanying general purpose financial statements also do not include a management's discussion and analysis (which would present an analysis of the financial performance for the year) or budgetary comparison schedules with original appropriations for the General Fund and each major Special Revenue Fund. The Governmental Accounting Standards Board has determined that these are necessary to supplement, although not required to be a part of, the financial statements.

Alan C. Young, Assoc

October 31, 2006

City of Hamtramck, Michigan

	Governmental Fund Types			Proprietary Fund Type
	General Fund	Special Revenue Funds	Debt Service Funds	Enterprise
Assets				
Cash and investments (Note 2)	\$ 334,634	\$ 3,335,001	\$ 19	\$ 242,544
Receivables:				
Taxes	676,198	37,442	342,513	30,641
Customer	-	-	-	2,537,980
Other	173,171	338	-	-
Due from other governmental units	6,783,751	244,698	-	-
Due from other funds (Note 3)	24,900	2,550,398	24,932	541,854
Due from component unit	75,901	2,505	-	-
Prepaid expenditures and deposits	21,750	-	-	-
Capital assets (Note 4)	-	-	-	3,683,673
Amount available in Debt Service Funds	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total assets	<u>\$ 8,090,305</u>	<u>\$ 6,170,382</u>	<u>\$ 367,464</u>	<u>\$ 7,036,692</u>
Liabilities and Fund Equity				
Liabilities				
Accounts payable	\$ 1,854,175	\$ 35,684	\$ -	\$ 628,189
Due to other governmental units	-	-	-	-
Due to other funds	2,969,035	252,167	19	-
Due to primary government	-	-	-	-
Accrued and other liabilities	596,587	10,157	-	6,433
Deferred revenue	2,384,473	91,312	-	-
Long-term debt (Note 5)	-	-	-	657,382
Total liabilities	7,804,270	389,320	19	1,292,004
Fund Equity				
Investment in general fixed assets	-	-	-	-
Retained earnings	-	-	-	5,744,688
Fund balances:				
Reserved for development agreement (Note 10)	-	-	-	-
Reserved for prepaid expenditures and deposits	21,750	-	-	-
Unreserved	264,285	5,781,062	367,445	-
Total fund equity	286,035	5,781,062	367,445	5,744,688
Total liabilities and fund equity	<u>\$ 8,090,305</u>	<u>\$ 6,170,382</u>	<u>\$ 367,464</u>	<u>\$ 7,036,692</u>

**Combined Balance Sheet - All Fund Types,
Account Groups, and Component Units
June 30, 2006**

Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ 4,099,611	\$ -	\$ -	\$ 8,011,809	\$ 178,860
-	-	-	1,086,794	-
-	-	-	2,537,980	-
-	-	-	173,509	-
-	-	-	7,028,449	-
111,890	-	-	3,253,974	-
-	-	-	78,406	-
-	-	-	21,750	-
-	12,257,901	-	15,941,574	-
-	-	367,445	367,445	-
-	-	9,282,352	9,282,352	-
\$ 4,211,501	\$ 12,257,901	\$ 9,649,797	\$ 47,784,042	\$ 178,860
\$ 122,607	\$ -	\$ -	\$ 2,640,655	\$ -
147,233	-	-	147,233	55,001
32,753	-	-	3,253,974	-
-	-	-	-	78,406
141,194	-	-	754,371	32,882
-	-	-	2,475,785	-
-	-	9,649,797	10,307,179	-
443,787	-	9,649,797	19,579,197	166,289
-	12,257,901	-	12,257,901	-
-	-	-	5,744,688	-
3,767,714	-	-	3,767,714	-
-	-	-	21,750	-
-	-	-	6,412,792	12,571
3,767,714	12,257,901	-	28,204,845	12,571
\$ 4,211,501	\$ 12,257,901	\$ 9,649,797	\$ 47,784,042	\$ 178,860

City of Hamtramck, Michigan

	Governmental Fund Types		
	General Fund	Special Revenue Funds	Debt Service Fund
Revenue			
Property taxes	\$ 10,440,951	\$ 393,083	\$ 2,963,670
Income taxes	2,390,706	-	-
Licenses and permits	349,700	-	-
Federal sources	4,199	617,013	-
State sources	4,254,486	1,269,542	-
Charges for services	223,091	82	-
Parking meters and permits	166,853	-	-
Fines and forfeitures	941,135	36,969	-
Interest	17,882	35,550	4,628
Other	300,338	48,423	-
Total revenue	19,089,341	2,400,662	2,968,298
Expenditures			
General government	2,548,761	3,203	-
Public safety	9,759,389	348,627	-
Public works	1,780,900	335,678	-
Health and welfare	220,830	-	-
Recreation and cultural	-	353,628	-
Economic development	-	233,367	-
Employee benefits, insurance, and other	1,541,160	-	-
Debt payments	-	-	187,315
Debt service	390,075	-	3,142,393
Total expenditures	16,241,115	1,274,503	3,329,708
Excess of Revenue Over (Under) Expenditures	2,848,226	1,126,159	(361,410)
Other Financing Sources (Uses)			
Operating transfers in	10,454	2,273,196	191,814
Operating transfers out	(2,243,613)	(221,397)	(10,454)
Operating transfers from component units	9,708	-	-
Operating transfers to primary government	-	-	-
Total other financing sources (uses)	(2,223,451)	2,051,799	181,360
Changes in Fund Balances	624,775	3,177,958	(180,050)
Fund Balances (Deficit) - Beginning of year	(338,740)	2,603,104	547,495
Fund Balances - End of year	\$ 286,035	\$ 5,781,062	\$ 367,445

**Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit) - All Governmental Fund Types,
Expendable Trust Fund, and Component Units
Year Ended June 30, 2006**

Fiduciary Fund Type		
Expendable		
Trust -	Total Primary	
Development	Government	
Agreement	(Memorandum	Component
Escrow	Only)	Units
\$ 191,567	\$ 13,989,271	\$ -
11,578	2,402,284	-
-	349,700	-
-	621,212	272,342
-	5,524,028	-
-	223,173	-
-	166,853	-
-	978,104	2,511
136,685	194,745	-
-	348,761	-
339,830	24,798,131	274,853
-	2,551,964	-
-	10,108,016	-
-	2,116,578	-
-	220,830	-
-	353,628	-
-	233,367	2,918
574,809	2,115,969	850
-	187,315	-
-	3,532,468	-
574,809	21,420,135	3,768
(234,979)	3,377,996	271,085
-	2,475,464	-
-	(2,475,464)	-
-	9,708	-
-	-	(9,708)
-	9,708	(9,708)
(234,979)	3,387,704	261,377
4,002,693	6,814,552	(248,806)
\$ 3,767,714	\$ 10,202,256	\$ 12,571

City of Hamtramck, Michigan

General Fund (Note 7)			
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 8,072,387	\$ 10,440,951	\$ 2,368,564
Income taxes	2,390,706	2,390,706	-
Licenses and permits	349,700	349,700	-
Federal sources	4,199	4,199	-
State sources	4,265,786	4,254,486	(11,300)
Charges for services	223,091	223,091	-
Parking meters and permits	166,853	166,853	-
Fines and forfeitures	939,824	941,135	1,311
Interest	17,839	17,882	43
Other	280,858	300,338	19,480
Reimbursements from other funds	115,665	365,665	250,000
Operating transfers from other funds	10,454	10,454	-
Operating transfers from component unit	9,708	9,708	-
Total revenue	16,847,070	19,475,168	2,628,098
Expenditures			
General government	2,470,278	2,548,761	(78,483)
Public safety	9,636,169	9,759,389	(123,220)
Public works	2,216,780	2,146,565	70,215
Health and welfare	220,830	220,830	-
Recreation and cultural	-	-	-
Economic development	-	-	-
Employee benefits and other	1,535,130	1,541,160	(6,030)
Debt service	390,075	390,075	-
Operating transfers to other funds	243,613	2,243,613	(2,000,000)
Total expenditures	16,712,875	18,850,393	(2,137,518)
Excess of Revenue Over Expenditures	\$ 134,195	\$ 624,775	\$ 490,580

**Combined Statement of Revenue and
Expenditures - Budget and Actual
General and Special Revenue Fund Types
Year Ended June 30, 2006**

Special Revenue Funds (Note 7)		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 340,000	\$ 393,083	\$ 53,083
-	-	-
-	-	-
379,000	617,013	238,013
1,352,078	1,269,542	(82,536)
165,200	82	(165,118)
-	-	-
39,000	36,969	(2,031)
6,780	35,550	28,770
28,000	48,423	20,423
-	-	-
241,953	2,273,196	2,031,243
-	-	-
2,552,011	4,673,858	2,121,847
45,000	3,203	41,797
250,800	348,627	(97,827)
534,508	335,678	198,830
-	-	-
383,000	353,628	29,372
320,554	233,367	87,187
-	-	-
-	-	-
241,953	221,397	20,556
1,775,815	1,495,900	279,915
\$ 776,196	\$ 3,177,958	\$ 2,401,762

City of Hamtramck, Michigan

Statement of Revenue, Expenses, and Changes in Retained Earnings Proprietary Fund Type - Enterprise Fund - Water and Sewer Year Ended June 30, 2006

Operating Revenue - Charges for services	\$ 4,353,869
Operating Expenses	
Cost of water	517,607
Cost of sewage disposal	2,517,765
System operation and maintenance:	
Personnel costs	221,395
Infrastructure repair and maintenance	466,980
Other	262,425
Depreciation	<u>201,525</u>
 Total operating expenses	 <u>4,187,697</u>
 Operating Income	 166,172
 Nonoperating Revenue (Expense)	
Interest income	8,798
Interest expense	<u>(42,607)</u>
 Total nonoperating expense	 <u>(33,809)</u>
 Income - Before capital contributions	 132,363
 Capital Contributions	 <u>102,069</u>
 Change in Retained Earnings	 234,432
 Retained Earnings	
Beginning of year	<u>5,510,256</u>
 End of year	 <u><u>\$ 5,744,688</u></u>

City of Hamtramck, Michigan

Statement of Cash Flows Proprietary Fund Type - Enterprise Fund - Water and Sewer Year Ended June 30, 2006

Cash Flows from Operating Activities

Operating income	\$ 166,172
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	201,525
Changes in assets and liabilities:	
Receivables	(812,834)
Due from other funds	797,628
Accounts payable	97,259
Due to other funds	(14,594)
Accrued and other liabilities	<u>(811)</u>
Net cash provided by operating activities	434,345

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(120,750)
Payments on meter financing debt service	<u>(231,007)</u>
Net cash used in capital and related financing activities	(351,757)

Cash Flows from Investing Activities - Interest received on investments 8,798

Net Increase in Cash and Cash Equivalents 91,386

Cash and Cash Equivalents - Beginning of year 151,158

Cash and Cash Equivalents - End of year \$ 242,544

Noncash Activities - R-31 constructed \$102,069 of water and sewer lines and donated them to the Water and Sewer Fund during the year.

City of Hamtramck, Michigan

Combining Balance Sheet Component Units June 30, 2006

	Downtown Development Authority	31st District Court	Total
Assets			
Assets - Cash and investments	\$ -	\$ 178,860	\$ 178,860
Liabilities and Fund Balances			
Liabilities			
Accrued and other liabilities	\$ -	\$ 32,882	\$ 32,882
Due to other governmental units	-	55,001	55,001
Due to primary government	-	78,406	78,406
Total liabilities	-	166,289	166,289
Fund Balances - Unreserved - Undesignated	-	12,571	12,571
Total liabilities and fund balances	\$ -	\$ 178,860	\$ 178,860

City of Hamtramck, Michigan

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Component Units Year Ended June 30, 2006

	Downtown Development Authority	31st District Court	Total
Revenue			
Federal sources	\$ 272,342	\$ -	\$ 272,342
Fines and fees collected	-	2,511	2,511
Total revenue	272,342	2,511	274,853
Expenditures			
Community and economic development	2,918	-	2,918
Other	-	850	850
Total expenditures	2,918	850	3,768
Excess of Revenue Over Expenditures	269,424	1,661	271,085
Other Financing Uses -			
Operating transfers to primary government	(9,708)	-	(9,708)
Change in Fund Balance	259,716	1,661	261,377
Fund Balances (Deficit) - July 1, 2005	(259,716)	10,910	(248,806)
Fund Balances - June 30, 2006	<u>\$ -</u>	<u>\$ 12,571</u>	<u>\$ 12,571</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Hamtramck, Michigan (the "City") do not conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The City has not modified its financial reporting to adopt Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As such, the general purpose financial statements exclude the management's discussion and analysis, government-wide statement of net assets, and government-wide statement of activities. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation on general fixed assets.

The following is a summary of the significant accounting policies:

Reporting Entity

The City of Hamtramck, Michigan is governed by an elected mayor and five-member Council. However, as a result of the City's significant financial problems, the State of Michigan (the "State") appointed an emergency financial manager to govern the City from November 2000 through November 2004. After this date, the mayor and Council regained control of all operations. The emergency financial manager who was overseeing all labor related issues resigned in March 2006. As of June 30, 2006, the State had not declared the financial emergency over and was still monitoring the City's financial condition. As required by accounting principles generally accepted in the United States of America, these general purpose financial statements present the City of Hamtramck, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

The following component units are reported within the component units column in the combined general purpose financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority (the "Authority" or "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. The Authority was terminated by the emergency financial manager effective June 30, 2004. At the time of termination, the Authority had a fund deficit. The City agreed to place all parking collections in the DDA Fund until the fund deficit was eliminated. The City has elected to re-establish the Authority effective July 1, 2006.
- b. The 31st District Court (the "District Court") records the collection of amounts that are subsequently returned to or paid to third parties. The fund also maintains certain fees collected on behalf of the City's General Fund to pay jury fees and certain operating expenditures. The District Court is also collecting a fee to provide funds for the renovation and/or construction of a new court building. The District Court is governed by separately elected judges. However, it is included here because it is fiscally dependent on the City.

Fund Accounting

The accounts of the City are organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined general purpose financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Note 1 - Summary of Significant Accounting Policies (Continued)

Debt Service Funds - The Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Fiduciary Funds

Expendable Trust Fund - The Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The Expendable Trust Fund accounts for assets where both the principal and interest may be spent.

Trust and Agency Funds - Trust and Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

Basis of Accounting

The accrual basis of accounting is used by the proprietary fund. All governmental funds, Expendable Trust Fund, Agency Funds, and component units utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- (a) Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31, with the final collection date of February 28 before they are added to the county tax rolls.

- (b) Noncurrent receivables are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end.
- (c) Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until it is due.

Note I - Summary of Significant Accounting Policies (Continued)

- (d) Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- (e) Normally, expenditures are not divided between years by the recording of prepaid expenses. The prepaid expenditures reported on the balance sheet represent advance payments for next year's services.
- (f) The noncurrent portion of accumulated sick and vacation pay liabilities is reflected in the General Long-term Debt Account Group.

Fixed Assets and Long-term Liabilities - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the proprietary fund are accounted for in that fund. Depreciation on such fixed assets is charged as an expense against the operations of the proprietary fund on a straight-line basis.

Cash and Cash Equivalents - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with original maturities of three months or less from the date of acquisition.

Investments - Investments are reported at fair value, based on quoted market prices.

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Taxes - All trade and property tax receivables are shown net of allowance for uncollectible amounts. Properties are assessed as of December 1 of each year. The related property taxes are levied on each July 1 on the taxable valuation of the property as of the preceding December 1. Taxes are due by September 1 with the final collection date of February 28. Taxes are considered delinquent on March 1, at which time penalties and interest are assessed.

The City tax mileage rate is 36.3511, which is comprised of 17.3886 general operating, .5000 police and fire protection, 2.6081 refuse collection, which is recorded in the General and Development Agreement Escrow Funds, 1.8544 library, and 14.0000 pension judgment. The General Fund, Development Escrow Fund, Library Fund, and Pension Judgment Fund received \$4,388,816, \$191,567, \$393,083, and \$2,963,670, respectively, in property tax revenue in the current year.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Deposits and Investments (Continued)

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$8,288,863 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

Type of Investment	Carrying Value	How Held
Money market funds	\$ 401,318	Counterparty's trust department

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Sweep account	\$ 3,238,582	3 months

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Money market funds	\$ 401,318	AAA	S&P

Concentration of Credit Risk - Through its investment policy, the City places a 5 percent limit on the amount the City may invest in any one issuer.

Note 3 - Interfund Receivables

The following are the interfund receivables at June 30, 2006:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
General Fund	Community Development Block Grants Fund	\$ 5,500
	Court Judgment #2	19
	General Agency	185
	Drug Law Enforcement Fund	19,196
Total General Fund		24,900

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Interfund Receivables (Continued)

Fund Due To	Fund Due From	Amount
Special Revenue Funds:		
Major Street	General Fund	\$ 54,157
Local Street	Major Street Fund	221,397
Local Street	General Fund	5,145
Library Fund	General Fund	253,925
Library Fund	Property Revitalization Fund	6,074
Library Fund	Tax Collection Fund	4,437
Budget Stabilization Fund	General Fund	2,000,000
Community Development Block Grants Fund	General Fund	<u>5,263</u>
Total Special Revenue Funds		2,550,398
Debt Service Funds - Pension Judgment Fund	Tax Collection Fund	24,932
Enterprise Fund:		
Water and Sewer Enterprise Fund	General Fund	538,748
Water and Sewer Enterprise Fund	Tax Collection Fund	<u>3,106</u>
Total Water and Sewer Enterprise Fund		541,854
Fiduciary funds:		
Tax Collection Fund	General Fund	111,797
Trust Development Agreement Escrow Fund	Tax Collection Fund	<u>93</u>
Tax Collection Fund	General Fund	<u>111,890</u>
Total interfund receivables		<u>\$ 3,253,974</u>

Note 4 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Land	\$ 808,656	\$ -	\$ -	\$ 808,656
Buildings and improvements	7,848,140	-	-	7,848,140
Equipment	<u>3,535,465</u>	<u>87,028</u>	<u>(21,388)</u>	<u>3,601,105</u>
Total	<u>\$ 12,192,261</u>	<u>\$ 87,028</u>	<u>\$ (21,388)</u>	<u>\$ 12,257,901</u>

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

The Water and Sewer Fund has only recorded assets acquired after June 30, 1986. A summary of Water and Sewer Fund fixed assets at June 30, 2006 is as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Water and sewer lines	\$ 1,582,310	\$ 1,137,049	\$ (9,625)	\$ 2,709,734
Construction in progress	996,480	-	(996,480)	-
Machinery and equipment	<u>2,126,542</u>	<u>82,250</u>	<u>(20,563)</u>	<u>2,188,229</u>
Total	4,705,332	1,219,299	(1,026,668)	4,897,963
Accumulated depreciation	<u>1,042,953</u>	<u>201,525</u>	<u>(30,188)</u>	<u>1,214,290</u>
Net	<u>\$ 3,662,379</u>	<u>\$ 1,017,774</u>	<u>\$ (996,480)</u>	<u>\$ 3,683,673</u>

Note 5 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the City at June 30, 2006:

	July 1, 2005	Additions	Reductions	June 30, 2006
General Obligation Bonds				
2004 Series A refunding bonds, issued in the amount of \$2,865,000. Principal payments are due annually on May 1, with interest ranging from 2.0 percent to 3.75 percent	\$ 2,765,000	\$ -	\$ (315,000)	\$ 2,450,000
1992 Series B refunding bonds, issued in the amount of \$2,370,000. Principal payments are due annually on May 1, with interest ranging from 6.5 percent to 6.55 percent	135,000	-	(135,000)	-
Fiscal Stabilization Bonds				
2002 fiscal stabilization bonds, issued in the amount of \$2,500,000. Principal payments are due annually on November 1, with interest ranging from 3.85 percent to 5.15 percent	2,175,000	-	(85,000)	2,090,000

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Long-term Debt (Continued)

	July 1, 2005	Additions	Reductions	June 30, 2006
Other Obligations				
Brownfield Cleanup Revolving Loan, issued in the amount of \$326,715. Principal payments are due annually on March 1 beginning in 2006, with 0 percent interest	\$ 326,715	\$ -	\$ -	\$ 326,715
Grand Haven/Dyar Section 108 loan, at the authorized amount of \$750,000. Principal payments are due annually August 1, with interest ranging from 3.8 percent to 5.0 percent	750,000	-	(83,000)	667,000
Joseph Campau Streetscape Project Section 108 loan, at an authorized amount of \$758,000. Principal payments are due annually August 1, with interest ranging from 3.9 percent to 5.1 percent	758,000	-	(76,000)	682,000
Accumulated Benefits, Insurance, and Other				
Lawsuits and asserted claims (see Note 12)	3,475,187		(2,931,030)	544,157
Accumulated sick, vacation, and other days	1,584,888	225,439	-	1,810,327
Estimated insurance claims (see Note 6):				
Workers' compensation	1,034,850	-	(80,252)	954,598
General liability	125,000	-	-	125,000
Total General Long-term Debt Account Group	13,129,640	225,439	(3,705,282)	9,649,797
Enterprise Fund Debt				
Water meter equipment and software purchased in February 2002 in the amount of \$1,348,290. Principal payments are due monthly beginning in July 2002, with interest at 5.24 percent	830,833	-	(188,401)	642,432
Accumulated sick, vacation, and other days	14,949	-	1	14,950
Total Enterprise Fund debt	845,782	-	(188,400)	657,382
Total long-term debt	\$ 13,975,422	\$ 225,439	\$ (3,893,682)	\$ 10,307,179

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Long-term Debt (Continued)

Debt Service Requirements - The annual requirements to service all debt outstanding as of June 30, 2006 (excluding lawsuits and asserted claims, accumulated employee benefits, and estimated insurance claims), including both principal and interest, are as follows:

Years Ending June 30	General Obligations	Enterprise Fund	Total
2007	\$ 1,419,073	\$ 231,007	\$ 1,650,080
2008	873,278	231,005	1,104,283
2009	874,009	234,562	1,108,571
2010	872,142	-	872,142
2011	814,284	-	814,284
2012 - 2016	2,276,036	-	2,276,036
2017 - 2021	997,935	-	997,935
Total	<u>\$ 8,126,757</u>	<u>\$ 696,574</u>	<u>\$ 8,823,331</u>

Interest - Total interest incurred for the City for the year approximated \$342,000.

Note 6 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for fleet, dishonesty, boiler, and medical benefits. The City is partially self-insured for general liability claims and uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Risk Management (Continued)

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. In addition, the City estimates the general liability claims that are in excess of its aggregate limits. These estimates are recorded in the General Long-term Debt Account Group. Changes in the estimated liability for the past two fiscal years were as follows:

	Workers' Compensation	General Liability
Estimated liability - June 30, 2004	\$ 1,091,811	\$ 125,000
Estimated claims incurred, including changes in estimates	188,151	16,254
Claim payments	(245,112)	(16,254)
Estimated liability - June 30, 2005	1,034,850	125,000
Estimated claims incurred, including changes in estimates	179,223	310,377
Claim payments	(259,475)	(310,377)
Estimated liability - June 30, 2006	<u>\$ 954,598</u>	<u>\$ 125,000</u>

Note 7 - Budget Information

The annual budget was prepared by the emergency financial manager. As of November 1, any subsequent amendments were made by the mayor and Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exception:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Budget Information (Continued)

The budget statement (combined statement of revenue and expenditures - budget and actual - General and Special Revenue Fund types) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - all governmental fund types, expendable trust fund, and component units):

	General Fund		Special Revenue Funds	
	Total		Total	
	Total Revenue	Expenditures	Total Revenue	Expenditures
Amounts per operating statement	\$ 19,089,341	\$ 16,241,115	\$ 2,400,662	\$ 1,274,503
Operating transfers budgeted as revenue and expenditures	20,162	2,243,613	2,273,196	221,397
Reimbursements from other funds budgeted as revenue and expenditures	<u>365,665</u>	<u>365,665</u>	<u>-</u>	<u>-</u>
Amounts per budget statement	<u>\$ 19,475,168</u>	<u>\$ 18,850,393</u>	<u>\$ 4,673,858</u>	<u>\$ 1,495,900</u>

The General Fund budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget is included in the additional information. This comparison includes expenditure budget overruns. The Special Revenue Funds' budget has been adopted on a total revenue/total expenditure basis. A comparison of the actual results of operations to the Special Revenue Funds' budget is available at the clerk's office for inspection.

The final budget amendments of the General Fund were prepared and adopted subsequent to June 30, 2006.

Expenditure budget overruns were as follows:

	Budget	Actual
General Fund:		
Legal	\$ 517,530	\$ 535,728
Controller	299,756	360,034
Police	5,167,639	5,215,834
Fire	4,344,750	4,419,774
Employee benefits and other	1,535,130	1,541,160
Transfers out	243,613	2,243,613
Special Revenue Funds:		
Drug law enforcement - Public safety	144,800	223,329
U.S. Justice Department Grants - Public safety	-	60,309
Act 302 Miscellaneous Grants - Health and welfare	6,000	6,974
Property Revitalization Fund - Economic development	6,500	8,770

Note 8 - Postemployment Benefits

The City provides health care, dental, and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 171 retirees are eligible for dental and health care benefits and 80 retirees are eligible for life insurance. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for the postemployment benefits are recognized as the insurance premiums become due; during the year, this amounted to \$1,541,960.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 9 - Pension Plan

Plan Description - The City participates in the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all full-time employees of the City. MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent.

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$3,436,010 for the plan was equal to the City's required and actual contribution. All contributions were paid by July 31, 2006. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.50 percent to 12.9 percent per year, and (c) the assumption that benefits will increase 2.5 percent per year for those retiring before March 1, 1977 and April 1, 1995. Both (a) and (b) include an inflation component of 4.50 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension cost (APC)	\$ 3,436,010	\$ 3,024,400	\$ 3,442,317
Percentage of APC contributed	100%	100%	100%
Net pension obligation	unknown	unknown	unknown
Actuarial Valuation as of December 31			
	2005	2004	2003
Actuarial value of assets	\$ 57,567,404	\$ 56,818,386	\$ 55,789,889
Actuarial Accrued Liability (AAL) (entry age normal)	<u>86,861,291</u>	<u>86,815,817</u>	<u>85,859,065</u>
Unfunded AAL (UAAL)	<u>\$ 29,293,887</u>	<u>\$ 29,997,431</u>	<u>\$ 30,069,176</u>
Funded ratio	66%	65%	65%
Covered payroll	\$ 6,259,378	\$ 6,230,480	\$ 6,683,736
UAAL as a percentage of covered payroll	468%	481%	450%

Note 9 - Pension Plan (Continued)

Policemen and Firemen Plan - Prior to 1994, the City operated a self-administered pension system for its police and fire personnel. During the 1980s and early 1990s, the City did not fully fund this pension system in accordance with actuarially required contributions. In June 1994, the Wayne County Circuit Court (the "Court") ordered the City's pension plan to be transferred to the Michigan Municipal Employees' Retirement System. The Court also ordered the City to fund the total unfunded accrued liability of \$37,886,752 over a 20-year period in annual installments. The City's annual pension contribution includes a provision to fund this unfunded liability. As a result of the underpayments during the 1980s and early 1990s, the City has a net pension obligation. However, this amount has not been calculated by either the actuary or the City.

Note 10 - The Wyandotte Project (Michigan R-3 I)

A class action lawsuit was brought against the City by minority residents who lived in the R-3I Urban Renewal Area (Wyandotte Project) who allege discrimination in the City of Hamtramck and the U.S. Department of Housing (HUD) Urban Development Program.

The Court determined that there was merit to the complaint and the decision ordered the City to set up a Tax Increment Financing Authority (TIFA) district in the R-3I area. All revenue collected in this area, including property taxes, income tax, permit, interest, and property sales, must be placed in a separate fund and used for the construction of housing for the families displaced by the development project.

The City is currently in the process of satisfying the judgment. The Development Agreement Escrow Fund was created to accumulate the earmarked revenue. The fund had reserved fund balance of \$3,767,714 at June 30, 2006.

The City completed the infrastructure for the project including putting in water and sewer lines and construction of streets and sidewalks during the year ended June 30, 2005. All prior year infrastructure expenditures incurred were paid from Community Development Block Grant revenue, Section 108 loans, Brownfield Economic Initiative program loans and grants, Wayne County Brownfield Redevelopment loans, and contributions from the Major, Local, and Water and Sewer Funds. The City began actual housing construction in spring 2006. Cumulative costs for this project through June 30, 2006 total approximately \$5,260,000. The remaining fund balance will be used for actual housing construction to be completed by fiscal year 2008.

The City is uncertain if the funds collected to date and the additional commitments noted above will be sufficient to cover the entire cost of the project.

Note 11 - Central Industrial Park Project (CIPP) Interlocal Agreement

The CIPP Interlocal Agreement is an agreement between the City, Wayne County, and the City of Detroit regarding the distribution of property tax and income tax revenues generated from the GM Poletown property. Under the agreement, the City is guaranteed to receive 50 percent of the first \$3.4 million collected and the City of Detroit will receive the other 50 percent. Any amounts collected over \$3.4 million will be distributed to each city based on the allocation of the qualifying project costs. If excess collections are received after project costs are paid, the balance will be distributed one-third to Hamtramck and two-thirds to Detroit. Collections for the year ended June 30, 2006 totaled approximately \$6,010,000. Based on estimate provided by the City of Detroit, most project costs have been completed at June 30, 2005. The City's annual collections under this agreement are estimated to be \$4,400,000 for the 2007 through 2014 fiscal years.

Note 12 - Lawsuit Settlement

During the fiscal year ended June 30, 2003, the Court has issued a judgment against the City concerning the calculation of pension benefits owed to employees. The amount of damages equals \$8.25 million including interest. The balance as of June 30, 2006 is approximately \$545,000. The judgment allows the City to place the above award on the tax rolls beginning July 1, 2004. The total mills required to satisfy the judgment are approximately 49. Approximately 3 mills will be levied on the July 1, 2006 tax rolls to satisfy the judgment. The City has recorded a liability for this loss in the General Long-term Debt Account Group.

Note 13 - Environmental Commitment

In a prior year, the City and additional defendants entered into a consent judgment with the State of Michigan and Michigan Department of Environmental Quality (MDEQ) to clean up a piece of property. The agreement called for the property to be cleaned up and an amount to be placed in a trust for future operating and maintenance costs. The City completed the cleanup during 2003 and placed approximately \$442,000 in a trust for future operating and maintenance costs related to the property. The balance in the trust at June 30, 2006 totaled approximately \$387,000.

City of Hamtramck, Michigan

Notes to Financial Statements June 30, 2006

Note 14 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall - July 1, 2005			\$(316,374)
Current year building permit revenue			186,367
Related expenses:			
Direct costs		\$210,542	
Estimated indirect costs		<u>84,217</u>	
Total construction code expenses			<u>294,759</u>
Cumulative shortfall - June 30, 2006			<u><u>\$(424,766)</u></u>

Note 15 - Contingent Receivable

During the year ended June 30, 2005, Wayne County unilaterally changed its method for calculating the annual payment in lieu of taxes (PILOT) due to the City. Based on the calculation in the agreement signed many years ago, the City believes the payments for the 2005 and 2006 fiscal years should be approximately \$1,300,000 and \$1,400,000, respectively. Wayne County paid the City only \$500,000 during the year ended June 30, 2005 and made no payments during the year ended June 30, 2006. The City initiated a lawsuit against Wayne County during the 2005 fiscal year that is currently on-going. The City has recorded \$2,200,000 as a receivable in the General Fund at June 30, 2006. As required under governmental auditing standards, the City has also recorded deferred revenue of \$2,200,000 in the General Fund given the timing of the collection.

Additional Information

General Fund

The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are funded by revenues from state-shared revenues, general property taxes, fees, and other sources. The schedule comparing revenue and expenditures - budget to actual compare the activity budgets (the level in which expenditures may not legally exceed appropriations) to actual revenues and expenditures.

City of Hamtramck, Michigan

General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes:			
Property taxes	\$ 4,382,233	\$ 4,388,816	\$ 6,583
GM revenue	3,648,033	6,010,014	2,361,981
Payments in lieu of taxes	42,121	42,121	-
Total property taxes	8,072,387	10,440,951	2,368,564
Income taxes	2,390,706	2,390,706	-
Licenses and permits:			
Business	163,333	163,333	-
Nonbusiness	186,367	186,367	-
Total licenses and permits	349,700	349,700	-
Federal grants	4,199	4,199	-
State sources	4,265,786	4,254,486	(11,300)
Charges for services	223,091	223,091	-
Parking meters and permits	166,853	166,853	-
Fines and forfeitures	939,824	941,135	1,311
Interest	17,839	17,882	43
Other	280,858	300,338	19,480
Reimbursements from other funds	115,665	365,665	250,000
Operating transfers in	10,454	10,454	-
Operating transfers from component units	9,708	9,708	-
Total revenue	16,847,070	19,475,168	2,628,098

City of Hamtramck, Michigan

General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual (Continued) Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
General government:			
Legislative	\$ 24,774	\$ 24,774	\$ -
District Court	492,629	492,631	(2)
Mayor's office	12,976	12,975	1
City manager's office	176,228	176,230	(2)
Elections	23,795	23,795	-
Assessor	42,921	42,921	-
Legal	517,530	535,728	(18,198)
Clerk	151,034	151,035	(1)
Controller	299,756	360,034	(60,278)
Treasurer	168,635	168,636	(1)
Income tax	226,307	226,308	(1)
Civil service	223,273	223,273	-
Community/Economic development	110,420	110,421	(1)
Total general government	2,470,278	2,548,761	(78,483)
Public safety:			
Police	5,167,639	5,215,834	(48,195)
Fire	4,344,750	4,419,774	(75,024)
Auto theft grant	123,780	123,781	(1)
Total public safety	9,636,169	9,759,389	(123,220)
Public works:			
DPW administration	712,519	712,520	(1)
Highways and streets	438,278	438,279	(1)
Sanitation	1,065,983	995,766	70,217
Total public works	2,216,780	2,146,565	70,215

City of Hamtramck, Michigan

General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual (Continued) Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (Continued):			
Health and welfare:			
Housing code enforcement	\$ 210,542	\$ 210,542	\$ -
Zoning Commission	10,288	10,288	-
Total health and welfare	220,830	220,830	-
Employee benefits and other	1,535,130	1,541,160	(6,030)
Debt service	390,075	390,075	-
Operating transfer out	243,613	2,243,613	(2,000,000)
Total expenditures	16,712,875	18,850,393	(2,137,518)
Change in Fund Balance	\$ 134,195	624,775	\$ 490,580
Fund Deficit - Beginning of year		(338,740)	
Fund Balance - End of year		\$ 286,035	

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The City of Hamtramck has 10 Special Revenue Funds that are accounted for separately. A description of the Special Revenue Funds maintained by the City is as follows:

Major Streets Fund

This fund records the construction, maintenance, and repairs of all major streets. Revenues received include state-shared gas and weight taxes, local contributions, and bonding. This fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Local Streets Fund

This fund records the construction, maintenance, and repairs of all local streets. Financing is provided by state-shared gas and weight taxes, local contributions, bonding, etc. This fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Library Fund

This fund records the operating activities of the City's public library. Activities are funded by revenues from property taxes, state aid, and other fines and fees. Expenditures consist primarily of wages.

U.S. Justice Department Grants Fund

This fund records amounts received from the U.S. Department of Justice for the COPS More Award and Local Law Enforcement Block Grants. Funds are expended on such programs as hiring additional law enforcement officers and other crime prevention tools.

Community Development Block Grant Fund

This fund records pass-through funding received from the U.S. Department of Housing and Urban Development (HUD) for Community Development Block Grants (CDBG). Funds are expended on such programs as housing rehabilitation, social services agencies, and restorations of historical sites.

911 Emergency Fund

An Emergency 911 utility surcharge is imposed on all telephone customers in Wayne County. Money collected is distributed to local communities. Expenditure of these funds is restricted to qualifying expenses as defined by the State of Michigan. This fund was created to account for the receipt and expenditure of these Emergency 911 Utility Tax funds.

Special Revenue Funds (Continued)

Drug Law Enforcement Fund

This fund records monies received from the Federal Drug Enforcement Agency for law enforcement purposes and for state funds related to drug enforcement purposes. These monies are to be used to supplement existing drug enforcement funds in the law enforcement field.

Miscellaneous State Grants Fund

This fund records pass-through funding received from the State of Michigan Department of Justice Training Fund. Funds are expended on training programs for law enforcement officers.

Building and Improvement Fund

This fund records the collection of fees levied on civil infractions and misdemeanors tickets. The purpose of the levy is to provide funds for renovation, expanding, and/or erecting and building new facilities.

Property Revitalization Fund

This fund records the proceeds from the brownfield revitalization loan. The proceeds from this loan are to be used for property cleanup.

Budget Stabilization Fund

This fund records funds of the City set aside for future anticipated budget needs of the City.

City of Hamtramck, Michigan

	Major Streets	Local Streets	Library	U.S. Justice Department Grants	Community Development Block Grant
Assets					
Cash and investments	\$ 1,596,380	\$ 507,997	\$ 147,621	\$ 9,385	\$ 25,186
Receivables:					
Taxes	-	-	37,442	-	-
Other	-	-	-	-	-
Due from other governmental units	200,793	43,905	-	-	-
Due from other funds	54,157	226,542	264,436	-	5,263
Due from component units	-	-	-	-	-
Total assets	<u>\$ 1,851,330</u>	<u>\$ 778,444</u>	<u>\$ 449,499</u>	<u>\$ 9,385</u>	<u>\$ 30,449</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 3,474	\$ 19,104	\$ 4,969	\$ -	\$ -
Due to other funds	221,397	-	-	-	5,500
Accrued liabilities	-	-	10,157	-	-
Deferred revenue	57,000	-	-	9,363	24,949
Total liabilities	281,871	19,104	15,126	9,363	30,449
Fund Balances - Unreserved	<u>1,569,459</u>	<u>759,340</u>	<u>434,373</u>	<u>22</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,851,330</u>	<u>\$ 778,444</u>	<u>\$ 449,499</u>	<u>\$ 9,385</u>	<u>\$ 30,449</u>

**Special Revenue Funds
Combining Balance Sheet
June 30, 2006**

911 Emergency	Drug Law Enforcement	Miscellaneous State Grants	Building and Improvement	Property Revitalization	Budget Stabilization	Total
\$ 84,375	\$ 448,665	\$ 24,456	\$ 98,239	\$ 392,697	\$ -	\$ 3,335,001
-	-	-	-	-	-	37,442
-	338	-	-	-	-	338
-	-	-	-	-	-	244,698
-	-	-	-	-	2,000,000	2,550,398
-	-	-	2,505	-	-	2,505
<u>\$ 84,375</u>	<u>\$ 449,003</u>	<u>\$ 24,456</u>	<u>\$ 100,744</u>	<u>\$ 392,697</u>	<u>\$ 2,000,000</u>	<u>\$ 6,170,382</u>
\$ 3,452	\$ 4,685	\$ -	\$ -	\$ -	\$ -	\$ 35,684
-	19,196	-	-	6,074	-	252,167
-	-	-	-	-	-	10,157
-	-	-	-	-	-	91,312
3,452	23,881	-	-	6,074	-	389,320
80,923	425,122	24,456	100,744	386,623	2,000,000	5,781,062
<u>\$ 84,375</u>	<u>\$ 449,003</u>	<u>\$ 24,456</u>	<u>\$ 100,744</u>	<u>\$ 392,697</u>	<u>\$ 2,000,000</u>	<u>\$ 6,170,382</u>

City of Hamtramck, Michigan

	Major Streets	Local Streets	Library	U.S. Justice Department Grants	Community Development Block Grant
Revenue					
Property taxes	\$ -	\$ -	\$ 393,083	\$ -	\$ -
Federal grants	-	-	-	54,300	224,597
State grants and distributions	942,972	271,078	18,262	-	-
Fines and forfeitures	-	-	-	-	-
Charges for services	-	-	-	-	-
Interest	14,089	2,628	-	-	-
Other	-	-	48,423	-	-
Total revenue	957,061	273,706	459,768	54,300	224,597
Expenditures					
General government	-	-	-	-	-
Public safety	-	-	-	60,309	-
Public works	238,155	97,523	-	-	-
Recreation and cultural	-	-	353,628	-	-
Economic development	-	-	-	-	224,597
Total expenditures	238,155	97,523	353,628	60,309	224,597
Excess of Revenue Over (Under)					
Expenditures	718,906	176,183	106,140	(6,009)	-
Other Financing Sources (Uses)					
Operating transfers in	-	221,397	-	6,406	-
Operating transfer out	(221,397)	-	-	-	-
Total other financing sources (uses)	(221,397)	221,397	-	6,406	-
Changes in Fund Balances	497,509	397,580	106,140	397	-
Fund Balances (Deficit) - July 1, 2005	1,071,950	361,760	328,233	(375)	-
Fund Balances - June 30, 2006	\$ 1,569,459	\$ 759,340	\$ 434,373	\$ 22	\$ -

Special Revenue Funds
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit)
Year Ended June 30, 2006

911 Emergency	Drug Law Enforcement	Miscellaneous State Grants	Building and Improvement	Property Revitalization	Budget Stabilization	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 393,083
-	338,116	-	-	-	-	617,013
-	37,230	-	-	-	-	1,269,542
-	-	-	36,969	-	-	36,969
82	-	-	-	-	-	82
1,121	4,276	318	-	13,118	-	35,550
-	-	-	-	-	-	48,423
1,203	379,622	318	36,969	13,118	-	2,400,662
-	-	-	3,203	-	-	3,203
58,015	223,329	6,974	-	-	-	348,627
-	-	-	-	-	-	335,678
-	-	-	-	-	-	353,628
-	-	-	-	8,770	-	233,367
58,015	223,329	6,974	3,203	8,770	-	1,274,503
(56,812)	156,293	(6,656)	33,766	4,348	-	1,126,159
-	-	-	-	45,393	2,000,000	2,273,196
-	-	-	-	-	-	(221,397)
-	-	-	-	45,393	2,000,000	2,051,799
(56,812)	156,293	(6,656)	33,766	49,741	2,000,000	3,177,958
137,735	268,829	31,112	66,978	336,882	-	2,603,104
\$ 80,923	\$ 425,122	\$ 24,456	\$ 100,744	\$ 386,623	\$ 2,000,000	\$ 5,781,062

Debt Service Funds

The Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund. The City of Hamtramck has two Debt Service Funds that are accounted for separately. A description of the Debt Service Funds maintained by the City is as follows:

Court Judgment #2 Fund

This fund records the proceeds of a court-ordered judgment levy and debt service payments for the 1992 Series B Refunding bonds.

Pension Judgment Fund

This fund records the proceeds of a court-ordered judgment levy and to pay a past pension obligation. Distributions from this fund are made to a trustee who distributes the money to the individual pensioners.

City of Hamtramck, Michigan

Debt Service Funds Combining Balance Sheet June 30, 2006

	Court Judgment #2	Pension Judgment	Total
Assets			
Cash and investments	\$ 19	\$ -	\$ 19
Receivables:			
Taxes	-	342,513	342,513
Due from other funds	-	24,932	24,932
Total assets	<u>\$ 19</u>	<u>\$ 367,445</u>	<u>\$ 367,464</u>
Liabilities - Due to other funds	\$ 19	\$ -	\$ 19
Fund Balances - Unreserved	-	367,445	367,445
Total liabilities and fund balances	<u>\$ 19</u>	<u>\$ 367,445</u>	<u>\$ 367,464</u>

City of Hamtramck, Michigan

Debt Service Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	Court Judgment #2	Pension Judgment	Total
Revenue			
Property taxes	\$ -	\$ 2,963,670	\$ 2,963,670
Interest	4,628	-	4,628
Total revenue	4,628	2,963,670	2,968,298
Expenditures			
Debt payments	-	187,315	187,315
Debt service	144,281	2,998,112	3,142,393
Total expenditures	144,281	3,185,427	3,329,708
Excess of Expenditures Over Revenue	(139,653)	(221,757)	(361,410)
Other Financing Sources (Uses)			
Operating transfers in	-	191,814	191,814
Operating transfer out	(10,454)	-	(10,454)
Total other financing sources (uses)	(10,454)	191,814	181,360
Changes in Fund Balances	(150,107)	(29,943)	(180,050)
Fund Balances - July 1, 2005	150,107	397,388	547,495
Fund Balances - June 30, 2006	<u>\$ -</u>	<u>\$ 367,445</u>	<u>\$ 367,445</u>

Trust and Agency Funds

Trust Funds account for assets held by the City in a trustee capacity. Agency Funds account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. A description of the Trust and Agency Funds maintained by the City is as follows:

Expendable Trust - Development Agreement Escrow Fund

This fund records money held in trust resulting from a 1981 court judgment. The judgment required the City to create a Tax Increment Finance Authority (TIFA) District (R-31). All revenues including property taxes, income taxes, and sale and building permit proceeds must be held in this fund and used for the replacement and rehabilitation of homes in this district. The judgment called for the creation of two corporations to supervise the development in this district.

Tax Collection Agency Fund

This fund records the current tax collections that are held by the City in the capacity of trustee. The collections are then transferred to the City funds and to other governmental units on a timely distribution basis. The fund also receives and distributes proceeds from delinquent personal property tax collections.

General Agency Fund

The fund is used to record Public Act 495 escrow receipts and subsequent disbursements.

City of Hamtramck, Michigan

Trust and Agency Funds Combining Balance Sheet June 30, 2006

	Expendable Trust - Development Agreement Escrow	Agency		
		Tax Collection	General	Total
Assets				
Cash and investments	\$ 3,890,228	\$ 68,004	\$ 141,379	\$ 4,099,611
Due from other funds	93	111,797	-	111,890
Total assets	<u>\$ 3,890,321</u>	<u>\$ 179,801</u>	<u>\$ 141,379</u>	<u>\$ 4,211,501</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 122,607	\$ -	\$ -	\$ 122,607
Due to other governmental units	-	147,233	-	147,233
Due to other funds	-	32,568	185	32,753
Accrued and other liabilities	-	-	141,194	141,194
Total liabilities	122,607	179,801	141,379	443,787
Fund Balances - Reserved for				
development agreement escrow	<u>3,767,714</u>	<u>-</u>	<u>-</u>	<u>3,767,714</u>
Total liabilities and fund balances	<u>\$ 3,890,321</u>	<u>\$ 179,801</u>	<u>\$ 141,379</u>	<u>\$ 4,211,501</u>